

Message Text

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 EB-03 L-01
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TO SECSTATE WASHDC 1491
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LIMDIS

C O R R E C T E D C O P Y (ADDED LIMDIS AND REFTEL)

E.O. 1165-: N/A
TAGS: BEXP ESCI BR
SUBJECT: IBM'S MANUFACTURING PROGRAM FOR MINICOMPUTERS UP FOR
DECISION.

FOLLOWING MESSAGE PREPARED IN RIO DE JANEIRO:

1. PRESS CONTAINS VARIOUS ARTICLES REPORTING IMINENT
GOB DECISION "AT MINISTERIAL LEVEL" ON IBM'S PLANS TO MANU-
FACTURE SYSTEM-32 MINICOMPUTERS IN BRAZIL. ARTICLES REPORT
POSSIBLE CONFLICTS WITH OANUFACTURING PROGRAM OF GOB-OWNED
COBRA (COMPUTADORAS BRASILWIRAS, S.A. -- SEE REFTEL RIO 1653
SUGGESTING SYSTEM-32 COULD STEAL MARKET FROM COBRA'S MODEL
400 BEING RUSHED TO MARKET USING SYCOR (US FIRM) TECHNOLOGY.
ONE ARTICLE STATED THAT IBM PROJECT WAS "AT POINT OF BEING
VETOED" BY CAPRE (GOB'S CENTRAL AGENCS FOR DATA-PROCESSING
DEVELOPMENT). A MAJOR PIECE IN JORNAL DO BRASIL ON APRIL 22
GAVE DETAILED OVERVIEW OF SITUATION, WARNING THAT IBM WOULD
"ANNIHILATE" YEARS OF GOB SPONSORED RESEARCH THROUGH SHEER
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MARKETING SKILL. THE ACCUSATION WAS ALSO MADE THAT ALREADY
PRODUCING THE SYSTEM-32 IN VARIOUS COUNTRIES, IBM HAD
DECIDED TO ADD PRODUCTION IN BRAZIL TO KEEP THE MARKET IT WAS
LOSING TO IMPORT CONTROLS.

2. ON APRIL 25, CONGEN RIO E/C CHIEF DISCUSSED ARTICLES WITH

VICTOR SIBOR, MANAGER FOR LATIN AMERICAN PATENT OPERATIONS AT IBM (AND SENIOR AMERICAN OFFICIAL IN BRAZIL, WHERE MOST OF IBM STAFF IS BRAZILIAN OR THIRD-COUNTRY). SIBOR CONFIRMED THAT DECISION WAS LIKELY THIS WEEK OR EARLY NEXT, AND THAT IT WAS SIMPLY UNCLEAR WHICH WAY IT WOULD GO. IBM WAS SEEKING CAPRE APPROVAL OF ITS PROGRAM, SINCE THIS WAS REQUIRED UNDER NOMINATIVE ACT 15 IN ORDER TO IMPORT COMPONENTS; COBRA HAD ALREADY RECEIVED SIMILAR PERMISSION, AS WELL AS CDI-APPROVED INCENTIVES FOR ITS MANUFACTURING OPERATION.

(IBM WAS NOT SEEKING SUCH CDI APPROVAL -- HAVING EARLY UNDERSTOOD THAT THERE WAS VIRTUALLY NO CHANCE OF OBTAINING IT AS A FOREIGN FIRM.) IBM UNDERSTOOD THAT THE GOB DECISION -- WHICH WAS INDEED NOW OUT OF CAPRE'S HANDS -- WAS A "POLITICAL" ONE, ESSENTIALLY DECIDING BETWEEN LEAVING THE MARKET TO COBRA AND PERMITTING SOME DEGREE OF COMPETITION. SIBOR COMPARED IT TO THE GOB'S DECISION TWO YEARS AGO TO REFUSE PERMISSION FOR PTILLIPS OF THE NETHERLANDS TO PURCHASE CONTROL OF THE CONSUL APPLIANCE FIRM. HE SAID BOTH DECISIONS COULD HAVE EQUAL IMPACT ON OVERSEAS PERCEPTION OF INVESTMENT CLIMATE IN BRAZIL.

3. SIBOR ALSO SAID THAT, IN FACT, SYSTEM-32 WAS NOT PRODUCED ELSEWHERE OUTSIDE THE US AND THAT IBM HAD INCLUDED A LARGE EXPORT COMMITMENT IN PRESENTATION TO CAPRE. MOREOVER, IT WAS NOT DIRECTLY COMPETITIVE WITH COBRA 400 (THOUGH HE ADMITTED IT MIGHT TAKE SOME OF 400'S MARKET), NOR WITH FERRANTI-DERIVED COBRA 700 (WHICH IS INDUSTRIAL-CONTROL SYSTEM, MUCH DIFFERENT FROM SYSTEM-32'S SMALL/MEDIUM OFFICE APPLICATION). SIBOR SAID HE UNDERSTOOD BRITISH FERRANTI LIMITED OFFICIAL USE

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(WHICH OANS ABOUT 5 PERCENT OF COBRA) AND COBRA HAD NOT BEEN "THE HAPPIEST OF THE PARTNERS" AND THE COBRA 700 (SOMETIMES REFERRED TO AS "ARGUS") WAS UNLIKELY TO REACH FULL PRODUCTION. HE SAID "NEW PARTNERS" OF COBRA (MAINLY LARGE BRADESCO FINANCIAL GROUP) HAD POSSIBLY CHANGED OVERALL COMPLEXION OF GOB'S COMPUTER PLANNING.

4. CONGEN RIO COMMENT: IBM IS OBVIOUSLY VERY CONCERNED THAT ITS EFFORT TO GET APPROVAL FOR SYSTEM-32 IS MUCH IN JEOPARDY, AND IS WORRIED THAT PRESS TREATMENT (BASED ON COBRA AND CAPRE SOURCES, SINCE SIBOR SAID IBM HAD DELIBERATELY KEPT ITS EFFORTS LOW-KEY AND HAD NOT BEEN IN CONTACT WITH PRESS) MAY FORESHADOW CONTRARY GOB DECISION. SIBOR'S MUSING ON THE PARALLEL WITH CONSUL IS SURPRISING AND MAY REFLECT IBM'S APPROACH TO GOB. SIBOR WAS HOPEFUL THAT ECONOMIC MERITS OF IDN PROPOSAL MIGHT STILL PREVAIL, BUT RETURNED FREQUENTLY TO "POLITICAL" NATURE OF DECISION.

5. ALL RECIPIENTS PLEASE NOTE EXTREME SENSITIVITY OF PROPRIETARY INFORMATION CONTAINED IN THIS REPORT.

EXEMPT FROM AUTOMATIC DECONTROL.

CRIMMINS

NOTE: CAPTIONED LIMDIS ADDED AS INSTRUCTED BY BRASILIA SVC 0021S 1291310.

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